



Department of Energy
Richland Operations Office
P.O. Box 550
Richland, Washington 99352

03-LMD-0026

Dr. L. J. Powell, Director
Pacific Northwest National Laboratory
Richland, Washington 99352

Dear Dr. Powell:

**CONTRACT NO. DE-AC06-76RL01830 – FISCAL YEAR (FY) 2002 YEAR END
EVALUATION OF BATTELLE FOR MANAGEMENT AND OPERATION OF THE
PACIFIC NORTHWEST NATIONAL LABORATORY (PNNL)**

Enclosed is the U.S. Department of Energy (DOE) FY 2002 Year End Evaluation Report of Battelle's management and operation of PNNL. The DOE's overall rating of Battelle's performance for FY 2002 is Outstanding. This rating is based on the Critical Outcome matrices identified for FY 2002, for Science and Technology Excellence, Management and Operations Excellence, and Leadership Excellence. This rating does, however, take into consideration the major work authorization and funds control issues identified during FY 2002 which lowered some areas of the evaluation from outstanding to excellent and also reduced total earned fee.

This was the seventh year that the performance evaluation was centered on the attainment of mutually agreed upon Critical Outcomes and DOE continues to be very pleased with Battelle's overall performance, particularly in the science and operations/safety arenas. As in years past, the strong partnership between DOE and Battelle continues to move the Laboratory in an effective and efficient manner towards the future.

The DOE Richland Operations Office (RL) review indicated that Battelle's performance generally exceeded expectations throughout FY 2002, and although some areas for improvement were identified (including significant funds control issues), these were generally offset by the identified strengths throughout the organization. RL's evaluation of each of the Critical Outcomes generally agreed with Battelle's FY 2002 Annual Self-Evaluation Report. Following is a summary of each of the Critical Outcomes:

- The Science and Technology Excellence Critical Outcome mainly consists of evaluations provided by the primary DOE-HQ program offices, which once again touted the high quality, externally recognized, scientific research and development programs managed by Battelle. Each of the HQ office's (Office of Science, Assistant Secretary for Environmental Management, Office of Defense Nuclear Nonproliferation, Office of Intelligence, Office of Counterintelligence, Assistant Secretary for Energy Efficiency and Renewable Energy, and

Assistant Secretary for Fossil Energy) rated overall performance as Outstanding. RL's review further noted the continued success of the Biomolecular Networks, Computational Sciences, and Nanoscience and Technology initiatives. Furthermore, Battelle continued to create and maintain strategic academic partnerships that strengthen the scientific capabilities of the Laboratory. However, the Office of Science expressed concerns regarding the effectiveness and efficiency of research program management by the Life Sciences Program that reports disconnects between DOE's broad systems biology goals and the Laboratory's strategic direction.

- The Management and Operations Excellence Critical Outcome encompasses the environment, safety, and health and security management, facility operations, and business operations. Battelle continued to conduct work and operate the Laboratory facilities with distinction, supportive of and integrated with the Laboratory's science and technology mission, and protective of workers, the public, and the environment throughout FY 2002. Each of the indicators measuring the Contractor's Integrated Safety Management program (i.e., Total Recordable Case Rate, Lost Workday Case Incident Rate, Lost Workday Incident Rate, Spread of Radioactive Contamination, etc.) once again met or exceeded targets established for FY 2002.

Measures of the contractor's ability to sustain and enhance the effectiveness of the Integrated Safeguards and Security Management system indicated outstanding performance and our review found that the contractor has made excellent progress in implementing the processes developed to better understand the current and future capability needs of the Laboratory and to then obtain or develop those identified capability needs.

Battelle continues to show progress in improving cost performance within the Laboratory and has continued to meet or exceed defined expectations within the business functional areas with two primary exceptions. RL reviews identified fundamental weaknesses in the contractor's work authorization and funds control processes and identified a number of occurrences of control point violations. RL has determined that these violations reflect financial control weaknesses and that basic minimum contract requirements related to work authorization and financial controls were not met, reflecting poorly on Battelle's overall management of the Laboratory. As a result, RL has invoked the provisions set forth within the Performance Evaluation and Fee Agreement (paragraph entitled "Adjustment to the Adjectival Rating and Performance-Based Fee Determination") and reduced the contractor's otherwise earned fee by \$350,000.00. Furthermore, the overall performance rating for the Management and Operations Excellence Critical Outcome was reduced from Outstanding to a rating of Excellent. Aggressive actions are needed by Battelle to correct these issues for the future. Failure to achieve timely corrective actions may result in further reduction of fee determinations and will potentially reduce future overall evaluation ratings. We also recognize the contractor has taken, and plans to take, several actions to correct the issues related to work authorization and funds control and we look forward to working with you to improve these areas.

- The Leadership Critical Outcome measured the contractor's leadership and regional partnerships that enable the Laboratory to continue to be recognized as an enduring local, regional, and national asset. The 6 companies in which the Laboratory had a role in the establishment or expansion brought the total to 56 exceeding the goal of 50 committed to by Battelle at the beginning of the current 5-year contract. RL is very pleased with Battelle's continued efforts throughout the community in which they work and the innovative approaches and initiatives sought out by Battelle continue to support the community's economic development activities. The contractor's impact on science, mathematics, and technology education also continues to be outstanding. However, Battelle leadership must also bear responsibility for the funds control issues that arose during FY 2002. Battelle's leadership had established and implemented an internal policy on anticipatory funding that was contrary to DOE's work authorization policy and terms and conditions of the contract. Therefore, RL has also reduced the overall performance rating for the Leadership Excellence Critical Outcome from an Outstanding to a rating of Excellent.

The DOE continues to be pleased with Battelle's overall efforts and performance in managing and operating the Laboratory, which generally offset the funds control issues. Once again we recognize that you are taking actions to correct the issues related to work authorization and funds control and we look forward to working with you to improve not only these areas but to continue to enhance the value of the Laboratory to the missions of the DOE and the Nation.

Based on the overall rating of Outstanding and in accordance with the fee determination section of Appendix E of the contract, Battelle earned \$7,000,000 in performance-based fee for FY 2002, however, due to the reduction of \$350,000 based on the work authorization and funds control processes issues identified above, the overall fee earned is \$6,650,000. To date, Battelle has withdrawn \$6,500,000 of fee from their DOE letter of credit bank account. Battelle is hereby authorized to draw down the remaining \$150,000 in fee payment for FY 2002.

If you have any questions, please contact me, or your staff may contact Paul W. Kruger, Associate Manager for Science and Technology, on (509) 372-4005.

Sincerely,

Keith A. Klein
Manager

LMD:RMA

Enclosure:
FY 2002 Year End Evaluation
for Battelle

cc w/encl:

